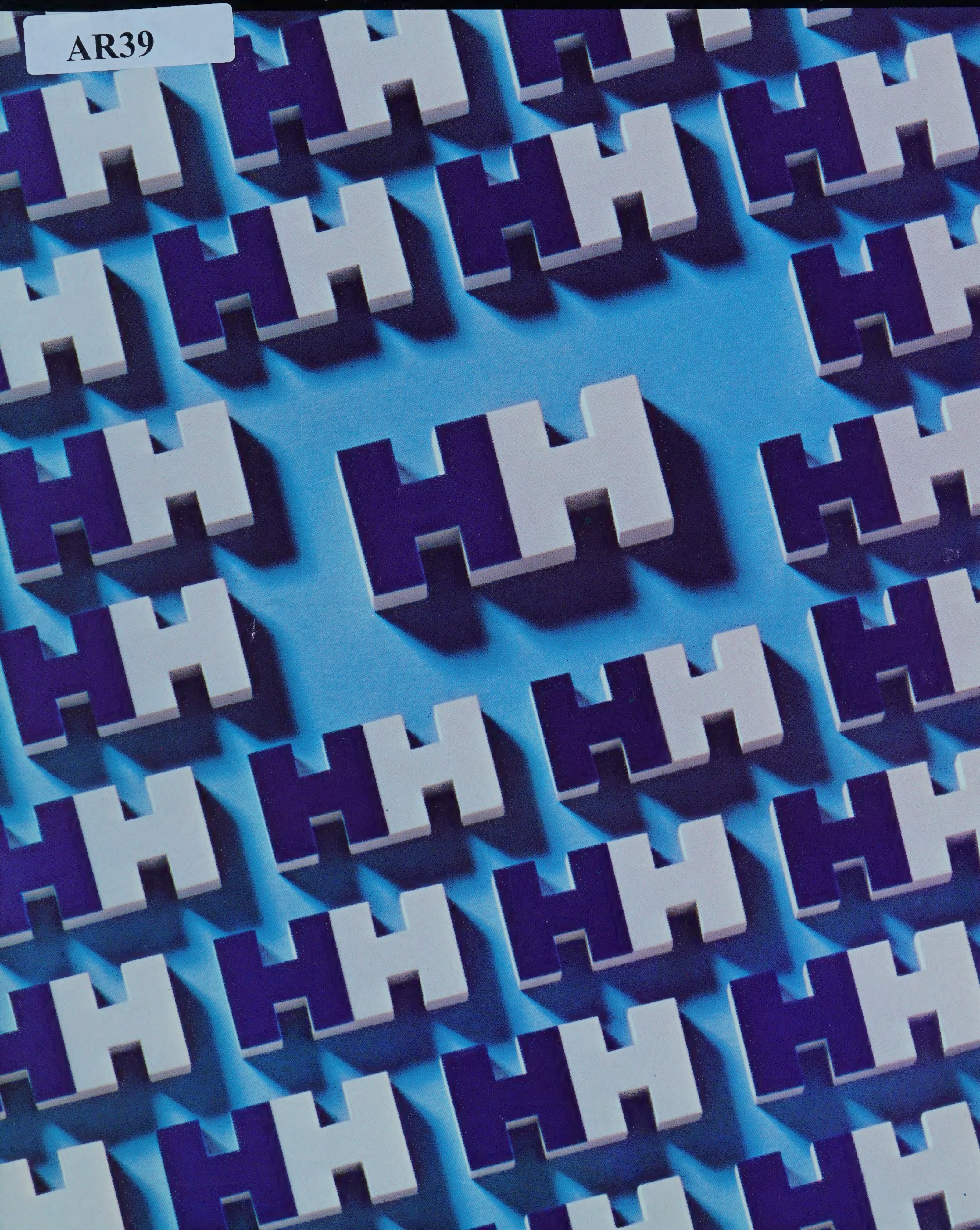
Handy & Harman Annual Report 1978



FINANCIAL HIGHLIGHTS

	1978	1977
Net sales	**$467,955,000**	$381,730,000
Earnings before income taxes	**26,113,000**	21,120,000
Net income	**12,921,000**	11,148,000
Net income per share	**$1.91**	$1.65
Average number of shares outstanding	**6,772,000**	6,773,000

Contents

Cover and Theme

This montage of three-dimensional "HH" logotypes symbolizes the companies in our continually growing family. The same design concept also appears as the cover of our corporate brochure (Page 10), a basic promotional tool used by all our companies.

Our advertising and promotion form the theme of this year's Annual Report. On Pages 3-15 we picture and describe some of the many ways in which advertising helps us communicate our Company's story to the nation's business community.

"Operating earnings reached a new high in our long history."

TO OUR SHAREHOLDERS:

Another earnings record set

The year 1978 was a very good one for Handy & Harman in all major areas of our business.

Operating earnings reached a new high in our long history. Sales and service revenues were $467,955,000, up 23% from $381,730,000 for the prior year of 1977. Net income was $12,921,000, compared to $11,148,000 in 1977, an increase of 16%. On a per-share basis, after adjustment for the two-for-one stock split last year, earnings were $1.91, compared to $1.65 for the preceding year. It should be pointed out that in neither year were there any profits resulting from the liquidation of precious metal inventories carried on the LIFO (last-in, first-out) method of accounting.

Nearly all our subsidiaries and divisions did extremely well this past year. One exception to this pattern was Greenback Industries, which experienced a long and costly strike. In the aggregate, the performance of our subsidiaries and divisions in 1978 gave us reason to feel pleased with the diversification program we have been carrying out over the last twelve years.

Acquisition made

Late in the year we completed the acquisition of Daniel Radiator Company. Daniel primarily manufactures and markets radiator cores for the automotive and industrial replacement fields. This acquisition brings us an expanded product line, multi-plant manufacturing facilities and a well-structured national sales and distribution system.

The acquisition of Daniel will take us closer to achieving the underlying goal of our diversification program. This program, which was launched in the mid-1960s, had the basic goal of broadening our operations—and earnings base—beyond our traditional precious metals business, through acquisitions of specialty manufacturing companies working primarily with non-precious metals. Our objective was ultimately to derive 50% of our operating earnings from non-precious metals activity.

Through implementation of this program we have become, in twelve short years, a diversified family of manufacturing companies, with the non-precious metals segment of our operations now contributing 38% of total Company earnings. The acquisition of Daniel Radiator, in addition to strengthening our position in the automotive aftermarket, will also accelerate the achievement of our basic diversification goal—50% of our profits to come from non-precious metals operations.

Stock split and dividends increased

At its September meeting, the Board of Directors voted to split the common stock of the Company two shares for one. This required increasing the number of shares authorized, an action which the

shareholders approved at a special meeting held for that purpose on November 14th. Actual distribution of the additional shares was made on December 1st.

At the same September meeting, the Board of Directors also voted to increase the annual dividend rate to 60¢ per share on the split basis—an effective increase of 20%.

This is the second time in two years that our stock has been split, the earlier one being the three-shares-for-two distribution in 1976. It is also the third time in as many years that the dividend rate has been increased. The rate had previously been increased by 20% in December of 1976, and by 25% in December of 1977.

Looking at our dividend rate over a longer period, namely the past thirteen years, we note that it has been increased seven times. In addition, the Company has paid three special cash dividends during that period.

Marketing initiatives

The continued improvement in our Company's financial performance has been anything but an automatic process. It has resulted largely from the purposefulness and marketing initiatives of the managers of our parent company and subsidiaries.

Some of our better markets—automotive, electronic, office equipment—are highly dynamic, constantly seeking better production methods, better materials, better components. In this climate of change there are few limits to the applications for our products, and our managers have taken full advantage of this situation.

They have won new customers for traditional products and services; they have unearthed new uses for familiar products, developed innovative product characteristics and created entirely new product lines. And they have taken their capability story to the marketplace through consistent and imaginative sales and promotion activity. Our advertising and promotion effort, pictured on the following pages, is the theme of this year's report.

Two new directors elected

During the year, two new directors were elected to our Board: Mr. N. George Belury and Mr. John G. Hall. Mr. Belury is President and Chief Executive Officer of Abex Corporation, and Group Vice President of IC Industries, Inc. Mr. Hall is Executive Vice President of Freeport Minerals Company. We are very pleased to have both these gentlemen join our Board. Their extensive business experience will enable them to make important contributions in the directing of our affairs.

Outlook favorable for 1979

We start 1979 on an optimistic note, but at the same time with some real concerns.

We have set a company policy to live within President Carter's wage and price guidelines, but at this time we cannot predict just how effectively they can be made to work, as labor contracts come up for renegotiation. Further, many economists are forecasting the onset of a recession, but with very little concensus on its timing and duration.

If the Company's operations are undistorted by these economic concerns, then we should be well positioned to continue our growth, and exceed our record year of 1978.

M. W. Townsend

M. W. TOWNSEND
Chairman of the Board
and President

March 30, 1979

Advertising: communicating the Handy & Harman story to the business community

Advertising is an important part of our business.

The kind of advertising we do is called "industrial advertising," because it's directed to companies, rather than to individual consumers. These companies are principally manufacturing firms, and they use our products and materials as components of the products *they* make.

So we target our advertising to business buyers...to top management executives, and to plant managers, design and production engineers and directors of purchasing. And we reach them mainly through business magazines—magazines seldom seen by the general public but very influential among industrial buyers.

Our advertising does a number of jobs essential to our overall marketing program.

It tells our product/capability story to a broad audience at a relatively low unit cost. It stimulates interest in our products, and identifies new business prospects for follow-up by our sales forces. And it builds an image of our Company's competence and stability, an invaluable asset for the salesman seeking to maintain—and increase—business against strong competition.

The examples shown on the following pages will give you an insight into the kind of advertising we do.

And the kind of company we are.

Handy & Harman pioneered the business of precious metals fabrication and refining in the U.S., during the first years of this century. We've been leaders in that business ever since. Our advertising of that era (examples shown below) offers an interesting picture of our early capabilities in precious metals.

A

Handy & Harman

OFFICE:
22 PINE ST., NEW YORK
WORKS:
BRIDGEPORT, CONN.

MANUFACTURERS OF

Fine Gold and Silver Bars
Rolled Gold
Granulated Silver
Rolled Sterling Silver
Fine Silver Anodes

SMELTERS, REFINERS AND ASSAYERS OF GOLD AND SILVER, SWEEPINGS, BASE BULLION, ETC.

Write BRIDGEPORT Regarding Refining

B

The Advantage of a Modern Equipment

The operations of the modern refiner, if they are to be conducted to the best ad-

What we are Ready to do for You

The service we offer to our Clients includes something more than the Refining of their Wastes.

We place, freely and gladly, at their disposition the resources of our completely equipped Laboratory and the services of our body of Skilled Experts.

Thus special tests or analyses will be promptly and accurately made, and information imparted as to the best system to employ in the handling of Wastes and Sweepings.

Handy & Harman
Office: 22 Pine St. New York City
Plant: 202 John St. Bridgeport, Conn.

Character as An Asset

Character should be a chief asset in the Refiner's business.

Before you send your waste to be refined make careful inquiry. Then select the Refiner whose character is best and longest established for straight-forward dealing and you will save yourself all the worry of uncertainty as to results.

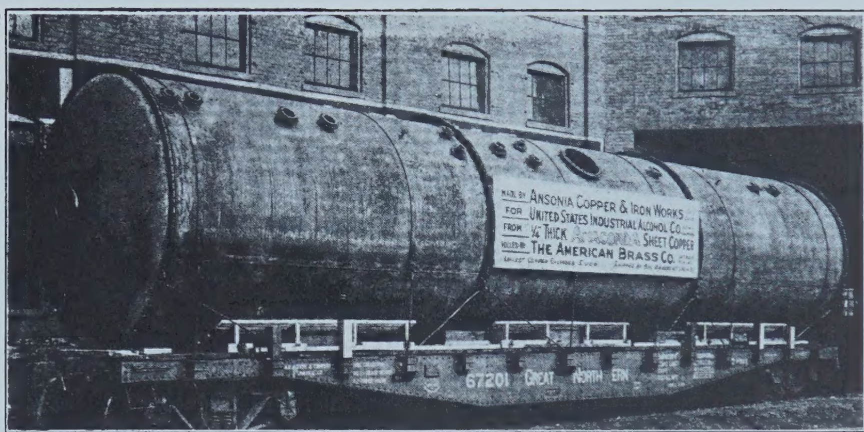
You will *know* that the results you receive represent actual values.

Handy & Harman
Office: 22 Pine St. New York City
Plant: 202 John St. Bridgeport, Conn.

A. In 1909, this advertisement appeared in business magazines directed to manufacturing jewelers, our first industrial customers. In that first decade of the century, we were already offering a fully-developed line of gold and silver products, as well as a precious metals refining service.

B. These ads were part of a series that appeared in trade magazines from 1907 through 1910. They promoted our refining service—our ability to reclaim gold and silver from manufacturers' scrap. These early ads express the same three basic sale features we emphasize today—competence, helpfulness, integrity.

C. This ad appeared in 1929. It illustrates our role in pioneering today's widely used silver brazing process (in those days termed "silver soldering"). The ad demonstrates our traditional product-plus-service marketing approach; it promotes our silver solders—*plus* the services of trained salesmen and a testing laboratory staff.



This 12 Ton Copper Still

And Its Network of Tubes and Headers Brazed with

Handy Silver Solder

AT Cincinnati, Ohio, the Handy Silver Solder-man was fortunate to call on a large coppersmith just as the largest copper still ever produced in America was being loaded for shipment to a large industrial alcohol works at Peoria, Ill.

This tank is 51 ft. long, 10½ ft. in diameter, and weighs 12 tons —or about 14 tons with its 4 in. coils and 6 in. headers.

There is not a rivet in it! All seams are brazed with Handy "BT" Silver Solder. The cylinder is made up of nine 133x195¼ in. plates of ¼ in. copper weighing 18,300 lbs. Heads are 133 in. circles of hot rolled ¼ in. copper weighing 2700 lbs.

When the cylinder was complete it was tested with air at 5 lbs. pressure. Coils were subjected to 200 lbs. hydrostatic pressure for 20 minutes. In neither case did a single leak develop! Sample sections of seams, tested by the Johns Hopkins University, withstood a pull test equivalent to 29,000 lbs. per sq. in., the failure occurring in the copper, close to the seam, and not in the seam.

Replaces Tobin Bronze Brazing—The Vice-President of the plant producing this mammoth still said:

"Before we discovered your silver solder we used to braze our copper stills and tubing with tobin bronze. But our customers found that the butyl acetate used in their process attacked the zinc in the tobin joints. As a matter of fact, they rarely got more than 6-months' service out of them. We now use Handy Silver Solders on all such work. Our crews who travel all over the country also carry this solder with them for use in repair and construction work that is likely to encounter acids. We are delighted at the service Handy Silver Solders give us and are glad we discovered them."

Let Us Help!

Put all your soldering, welding or brazing problems up to us. Our testing laboratory and staff are at your service.

Wide Range of Uses—Contrast that great job with the pin-point of the same solder that is used on delicate parts of dainty wrist watches; and you have a mental picture of the range of uses of Handy Silver Solder.

Handy Silver Solders should be used in all work likely to encounter heat, shock, vibration or corrosion. They make neat tight joints quickly and—all costs counted—are frequently the cheapest solders you can buy.

HANDY & HARMAN

GENERAL OFFICES—57 WILLIAM STREET, NEW YORK, N. Y.

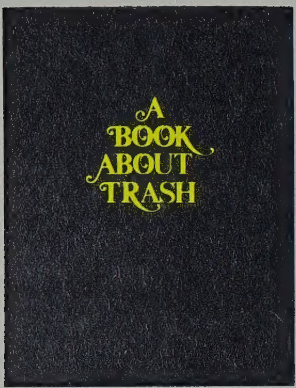
Plants—Bridgeport, Conn.—Providence, R. I.—Fulton & Gold Sts., New York, N. Y.

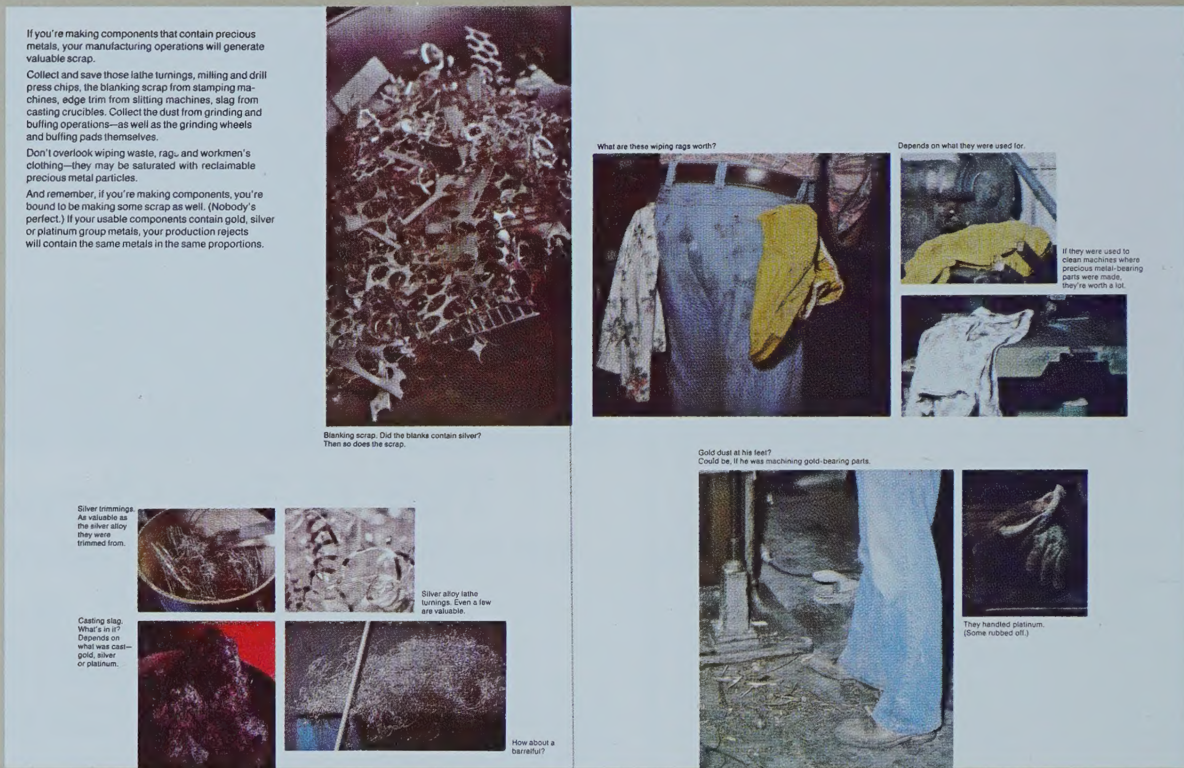
HANDY SOLDERS are supplied in sheets, strips, wire and filings.

Our "Handy Book of Silver Solder" B will interest you. Send for your copy.

C

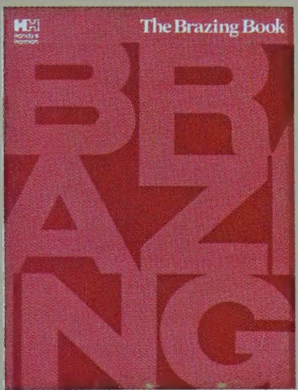
Today we've become a family of diversified companies. But parent company Handy & Harman still maintains its leadership in precious metals—in products for manufacturing jewelers and silversmiths and for the electrical and electronics industries; in silver brazing materials; and in precious metal refining. On these pages we show examples of current advertising promotions in two of these areas, refining and brazing.





(Above) "A Book about Trash" is an imaginative promotion of our precious metals refining service. Its 32 pages of informal (but informative) text, illustrated with color photos, teach precious metals users how to identify, collect, handle and protect their valuable scrap.

(Right) These ads for our refining service have produced thousands of inquiries for "A Book about Trash" and directly stimulated new refining business.



Section 2: Brazing in Action

Mass-produced brazed assemblies of widely dissimilar materials

Application: "Commgap", a 3-element header assembly made by C. P. Clare & Co., Asheville, N.C.

The brazing story: Commgap is an assembly used as an electrical circuit protector. The three elements of the assembly are of widely-differing materials—copper, copper-plated steel and metallized ceramic. These parts are joined by brazing at high production rates.

The brazing process is completely automated, except for initial assembling of the three parts, which are placed in trays with preform rings and washers of Braze 503 VTG and Braze 721 (BT VTG) inserted between them. The loaded trays are conveyorized through a hydrogen atmosphere furnace.

The assemblies (175 to a tray) are brazed in the furnace in 3 minutes. The production rate, including manual assembling of parts, is 161 complete brazed assemblies per hour. No finishing operations are needed—and the reject rate is below 3%.

Why brazing? Clare Co. considers brazing the only possible method of joining these very small components, made of widely-differing materials, into single assemblies—at high production rates.

A. Trays of completed assemblies emerging from the furnace.

B. At left—the 3 brazing preforms used to join the components. At right—the 3 components that will form the assembly.

C. The completed assembly.

D. Manual assembly of brazing washers.

E. Brazing rings positioned on circuit protector assembly.

F. Trays of assembled circuit protectors enter the brazing furnace.

G. The completed assemblies are inspected under high magnification.

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Manual torch and automated methods combined in brazing of oil coolers

Application: Heat exchangers used as oil coolers, made by Stewart-Warner Corp., South Wind Division, Indianapolis, Ind.

The brazing story: Stewart-Warner uses a combination of manual and automated brazing techniques to produce its oil coolers, which are used in the engines of International Harvester equipment, Allis-Chalmers tractors and aerospace projects.

Copper tubes are assembled into "bundles," which are manually brazed at both ends to brass or copper headers. Handy Flux and Easy-Flo 30 wire are used for brazing.

Each bundle-header brazed assembly is then brazed into a shell of gray iron. Here automated methods take over. Preform rings of brazing alloy are placed in the flanges of the shells. A rotary conveyor then bears the assemblies through a sequence of heating stations equipped with double-tipped gas torches.

The finished brazed assemblies are dip-cleaned and air-tested against leakage at pressures of 150 to 225 psi. Production of completed units runs to several thousand per week.

Why brazing? Brazing insures joints that are strong, leaktight and corrosion-resistant. The combination of manual and automated brazing techniques results in economical production of the units.

A. Operator brazes tubes to header.

B. Tubes assembled into bundles, ready for brazing.

C. Closeup view of header being manually brazed to tube bundle.

D. Rotary conveyor bears bundle-shell assembly through heating stations, for automated brazing.

E. Brazed assemblies air-tested for leak tightness in water bath.

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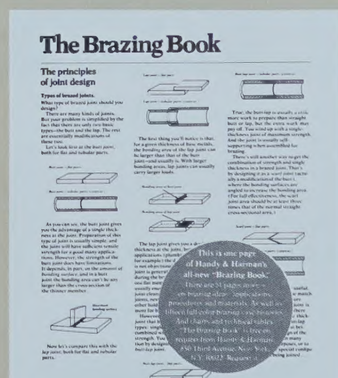
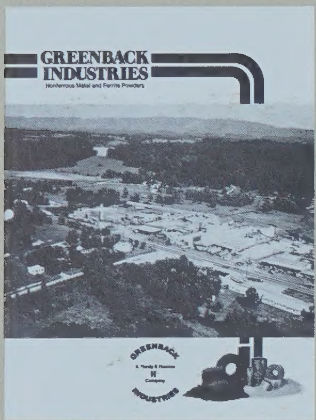
(Above) "The Brazing Book," as its title implies, is a complete manual of silver brazing. Its 52 pages of brazing procedures, case histories, product data and technical tables are an invaluable source of information for industrial users of the brazing process.

(Right) Our brazing ads have won business magazine readership awards—and generated a strong demand for "The Brazing Book." (We've reprinted the book three times in the past two years.)



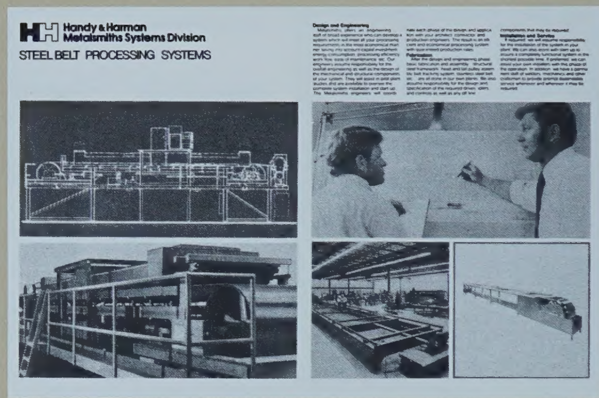
Over the past several decades, we've become a family of specialty manufacturing companies, working with a variety of different metals and materials. Each company in our family handles its own advertising—in its own way. The examples below indicate the diversity of products—and types of promotion—of our subsidiaries and divisions.

Greenback Industries, Inc.



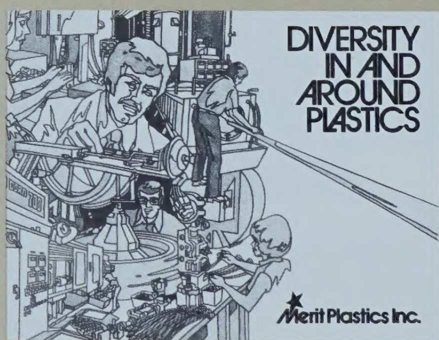
Maryland Specialty Wire, Inc.

H & H Metalsmiths Systems Division



New Industrial Techniques, Inc.

Merit Plastics Inc.

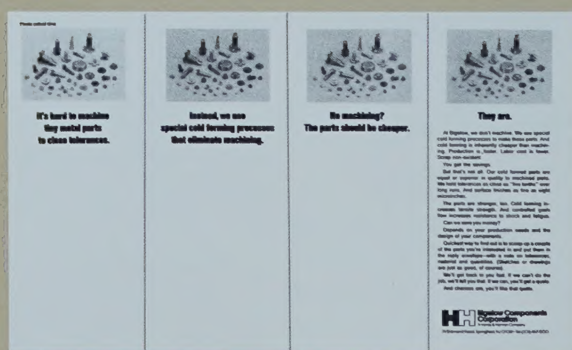


Pennsylvania Wire Rope Corp.

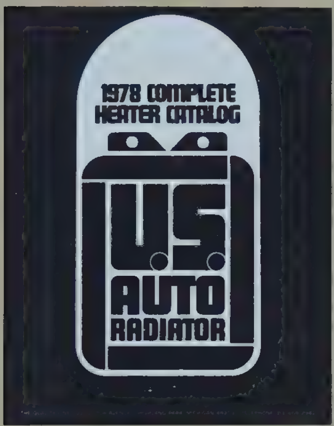
Rathbone Corporation

Conn-Form Corporation

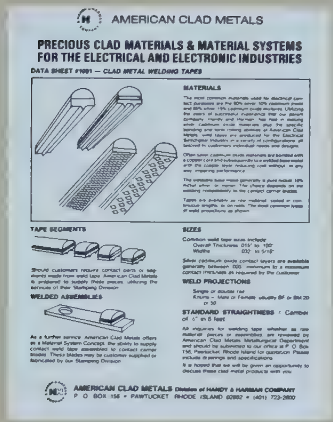
Bigelow Components Corporation



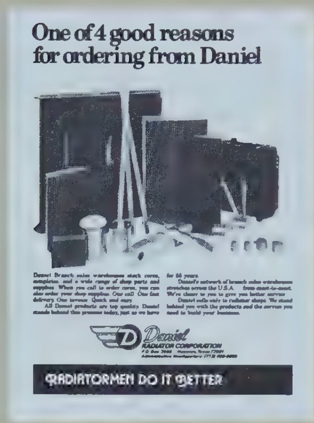
U.S. Auto Radiator Mfg. Corp.



American Clad Metals



Daniel Radiator Corp.

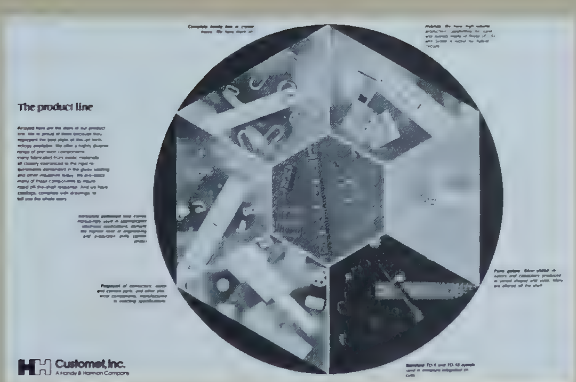


H & H Tube Co., Inc.

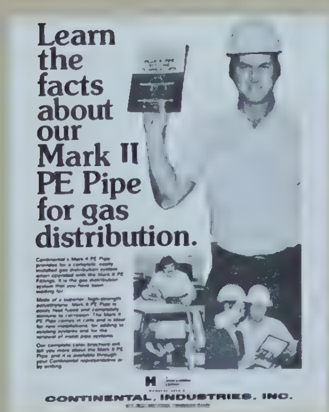
Lucas-Milhaupt, Inc.

H & H of Canada, Ltd.

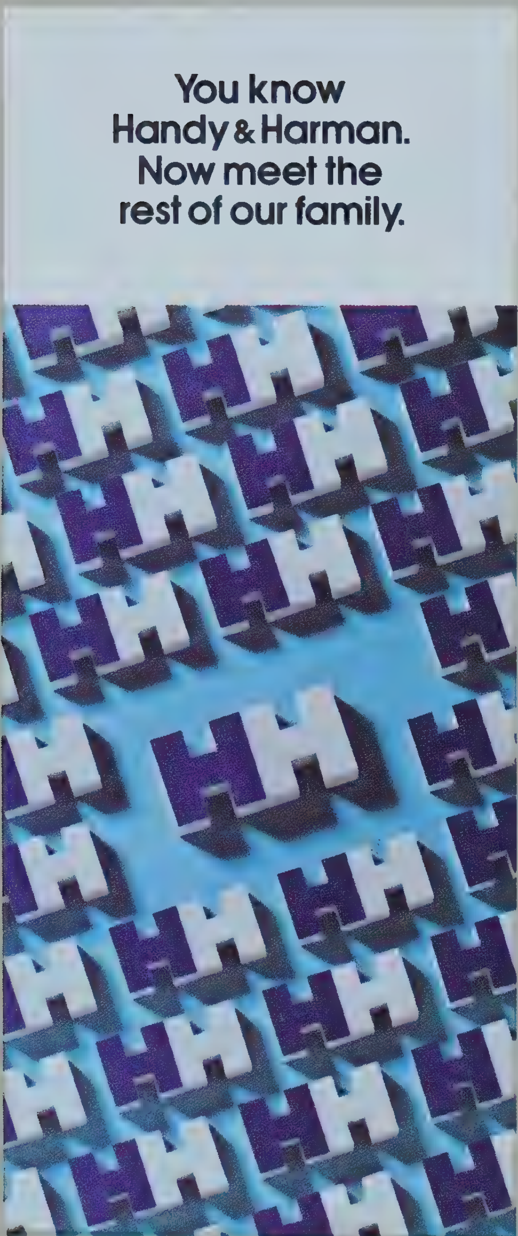
Customet, Inc.

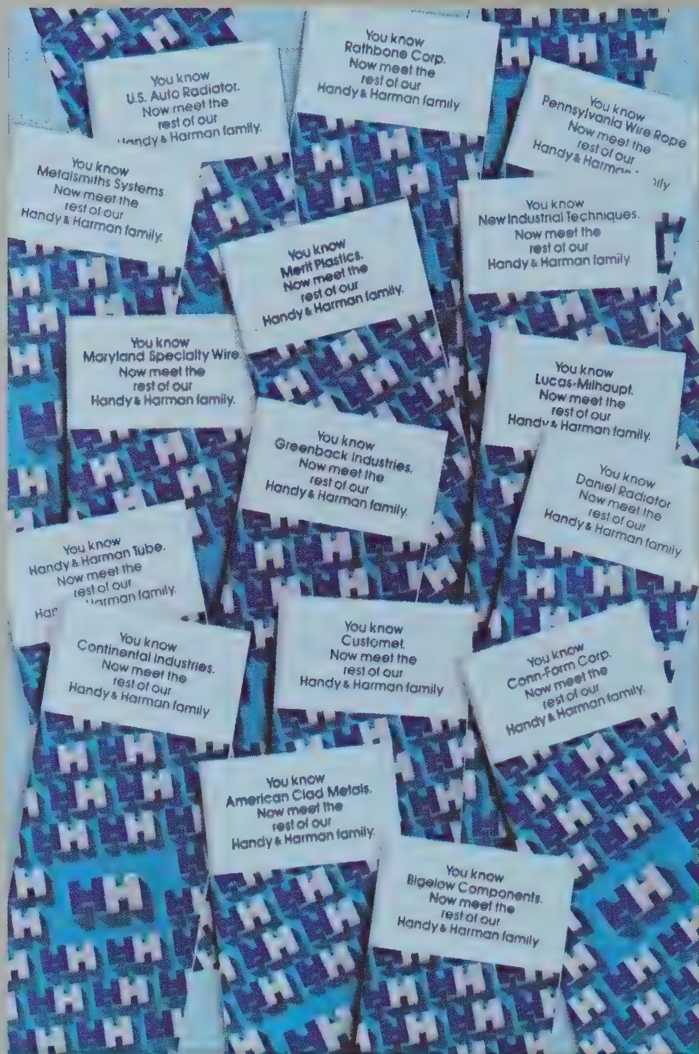


Continental Industries, Inc.



With our development as a family of companies, we have initiated a corporate advertising program. This program links together parent company, subsidiaries and divisions, to project a realistic picture of the Handy & Harman of today—a family of companies creating specialty products for a broad spectrum of industrial markets.





Our basic direct mail brochure portrays, through color photography and descriptive text, the products and services of each of our companies. Quantities are imprinted for each company, to be used as "personalized" direct mail enclosures, or salesmen's giveaways to customers and prospects.

Our current corporate advertisement is shown full size inside this foldout.

This advertisement appears in leading business magazines circulated to top management executives, plant managers, production and design engineers and purchasing directors. It does a number of important jobs for us...

It projects a unified overall view of our entire family of companies.

It creates a "cross-fertilization" effect in the marketplace, informing the customers of any *one* of our companies of the existence—and capabilities—of all our other companies.

It builds added confidence in our subsidiaries on the part of customers and prospects, by associating them with the unquestioned financial strength and stability of Handy & Harman.

Finally, it actively solicits inquiries for further information from industrial buyers, thus developing sales leads and producing new business for all of our companies.

For greatest flexibility, our corporate advertisement is designed as a modular layout. A different combination of subsidiaries and divisions is shown each time the ad appears. In this way, we systematically promote all our companies in the context of our corporate advertising.

Handy & Harman Tube Co., Inc.

Handy & Harman Tube makes small-diameter tubing—capillary, hypodermic needle, mechanical and pressure—of stainless, nickel, carbon and alloy steel. Applications include gas and liquid chromatography. The Micro-Tube Fabricators Division makes precision tubular components for hermetic seals, connectors, mercury switches, diodes, and other telecommunications and medical uses.

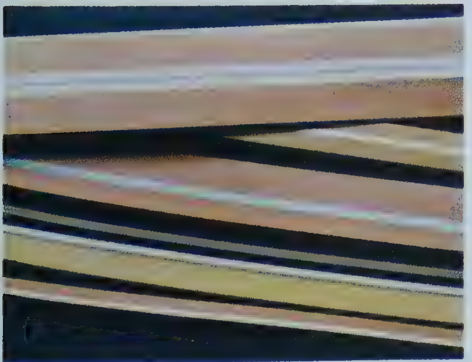
Greenback Industries, Inc.

Greenback makes metallic powders of copper, copper alloys, tin, premixed bronze and infiltrating powders—for porous bearings, metal powder friction elements and a wide range of P/M parts. Also barium hard ferrite powders with exceptional magnetic properties—whose uses include magnetic refrigeration gaskets and Ceramic 5 magnets used in radio and television speakers.

Lucas-Milhaupt, Inc.

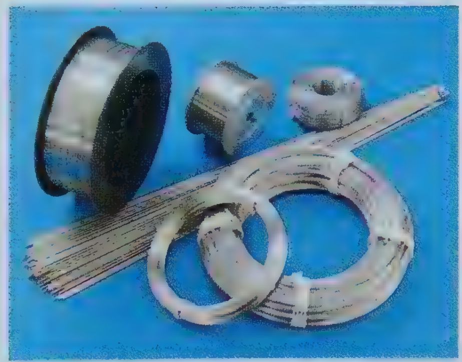
Lucas makes preformed rings, washers and special shapes from all brazing and soldering materials—and supplies automated preform placement devices as well. Lucas also designs and builds complete brazing systems, using automated components (drives, fixtures, flux and alloy placement machines, heating units) to tailor a system that corresponds to the production requirements of the user.

American Clad Metals Division



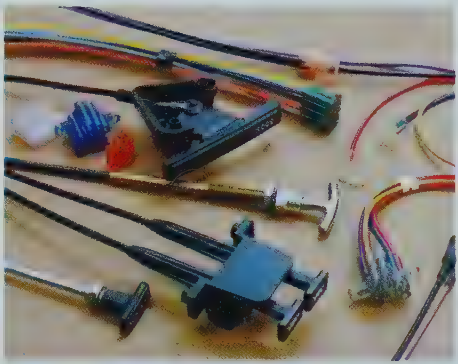
"ACM" manufactures multi-layered clad metal strip, for automotive, semiconductor and communications industries. ACM bonds precious and non-precious metals into close tolerance strip, specializing in ultra-thin overlays and inlays. Other products include edgelays, thrulays, raisedlays, double edgelays, welding tapes for electrical contacts—and clad soft solders and brazing alloy strip.

Maryland Specialty Wire, Inc.



MSW makes stainless and nickel alloy wire and high speed steels—for brushes, braiding, cable lashing, lock washers, nails, sponges, springs, twist drills, weaving, welding, wire rope and antenna whips. Special applications are found in the aerospace, automotive, energy, environmental control, petrochemical, marine and medical fields. Conversion services are offered as well.

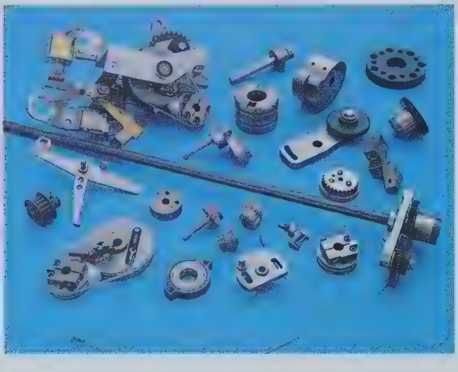
Merit Plastics, Inc.



Merit is a full-range plastics processor, whose capabilities include extrusions of simple, braided and reinforced tubing; complex profile extrusions; metalworking operations; injection molding; and sophisticated assembly. Merit's mechanical controls, speedometer cables, vacuum harnesses and components are widely used in automotive, appliance and outdoor power equipment industries.

The additional "modules" on these pages are interchangeable with those in the corporate advertisement shown previously. This flexibility of format enables us to include new companies, as we acquire them, into our corporate advertising...so that our advertising always reflects an accurate picture of the Handy & Harman of today.

New Industrial Techniques, Inc.



"NIT" uses powder metallurgy to make custom molded structural parts from ferrous and nonferrous powders; machined and heat-treated P/M parts; and assemblies containing P/M parts. NIT supplies complex assemblies, mechanical and electrical, including wrapped spring clutches—for business machines, hand power tools, hydraulic motors and pumps, lawn products and fishing reels.

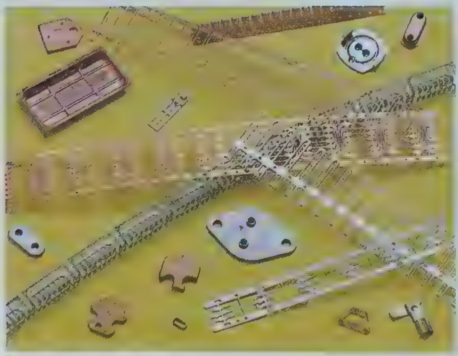
Bigelow Components Corporation

Bigelow manufactures very small parts for consumer durables, electromechanical, telecommunications, electronics and computer uses. The parts are made to very close tolerances by a combination of cold-forming processes—heading (solid and semi-tubular), coining, stamping and extruding. Metals used include nickel, nickel alloys, aluminum, OFHC copper, low carbon and stainless steels.

Pennsylvania Wire Rope Corp.

Penn Wire Rope makes stainless and high carbon steel cable and strand (dia. $\frac{1}{64}''$-$\frac{1}{2}''$, footage or cut lengths), used in automobiles, aircraft, leisure products and material handling equipment. Plastic-coated, electromechanical and other specialty cable and cable assemblies are made to order. Design help is offered for cable control devices and non-standard cable/strand constructions.

Customet, Inc.



Customet makes miniature and subminiature stamped components for electrical-electronics applications. The company offers a total service—from prototype design to mass production of precision parts, and complex assembly operations. Typical parts include light-emitting diode frames (LED's), crystal bases, intricately patterned lead frames, TO-5 eyelets, contacts, resistors and capacitors.

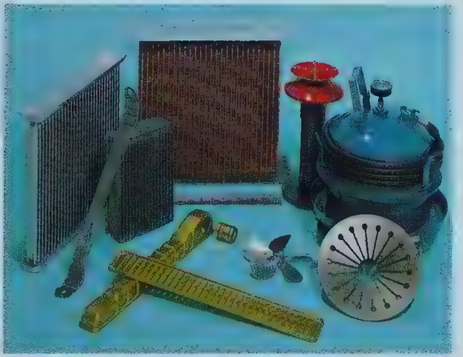
Conn-Form Corporation

Conn-Form makes small- and medium-diameter tubing and eyelet parts, used in electronic, appliance, air conditioning and automotive products. It is the leading producer of one-piece bulb and capillary temperature sensing units. Conn-Form also makes small stampings, split shells and sleeves, wire and ribbon forms, and springs for electrical, optical, drapery hardware and jewelry industries.

Continental Industries, Inc.

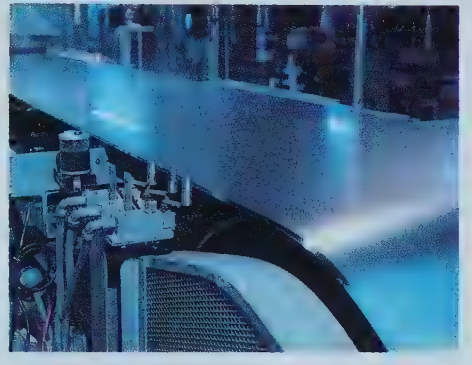
Continental manufactures products for utilities. Its gas utility products—steel fittings and polyethylene systems—are used mainly in below-ground applications. For electric utilities, Continental makes many products, from high-temperature thermite welding powder to "ThermOweld" electrical connections. The company also makes service tees and service pipe used by water utilities.

Daniel Radiator Corporation



Daniel is a leader in the manufacture of radiator cores and complete radiators for the automotive aftermarket. These products, used for passenger cars and industrial applications, are sold to radiator shops coast to coast through a network of warehouses. Jackson Industries, a Daniel division, makes tank parts, headers and brackets, as well as fan blades, clutch plates and gas tanks.

Metalsmiths Systems Division

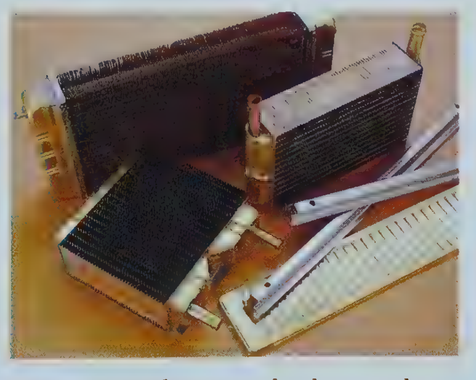


Handy & Harman Metalsmiths designs and manufactures conveyor systems using solid stainless steel belts—for processing chemicals, tobacco, plastics, food, rubber, etc. Metalsmiths also manufactures replacement stainless steel belts for existing conveyor systems. Other products made by the company include exact length tubing, produced to close tolerances and special finishes.

Rathbone Corporation

Rathbone cold-draws profile shapes and pinion rod to customer specs from both ferrous and nonferrous alloys, in sizes 1½″ to ⅓₂″ OD. They are incorporated into precision mechanical devices, bearings, electrical-electronic products, office equipment, power tools and automotive products—when reduction in machining operations, in finishing time, or in assembly costs is desired.

U.S. Auto Radiator Mfg. Corp.



U.S. Auto Radiator is a leading producer of motor vehicle cooling and heating components. OEM products include heaters for buses, trucks, industrial equipment and recreational vehicles. Aftermarket products include the industry's most complete line of automotive replacement heaters. The company also manufacturers replacement radiator cores for the radiator repair industry.

The operations of Handy & Harman and its subsidiaries are divided into two industry segments: manufacturing of precious metal products and refining services; and manufacturing of non-precious metal products. The table and chart below present information about these two segments, prepared in accordance with Statement of Financial Accounting Standards No. 14. Additional segment information for the years 1978 and 1977 is found in Note 6 of the Notes to Consolidated Financial Statements on page 27.

The precious metals segment is engaged in the manufacture of a variety of products, generally in mill form, containing silver, gold and other precious metals in combination (alloys) with non-precious metals, and the sale of such products to industrial users in a wide range of industries, including silverware and jewelry, electrical and electronic, automotive and appliance. The Company also provides metal refining services for the recovery of precious and non-precious metals from industrial scrap.

Consistent with the Company's policy of maintaining constant inventory levels under the last-in, first-out (LIFO) method of accounting, precious metals are purchased at the same prices and quantities as shipments to customers. To the extent that additional inventory is required to support operations, precious metals are purchased and immediately sold for future delivery, eliminating the economic risk of price fluctuations. Such purchases and sales are not included in either sales or cost of sales.

A high percentage of the selling price for precious metals products is the cost of the precious metals contained. Therefore, both sales and cost of sales are influenced by fluctuation in the prices of precious metals. Service revenues, which represent charges to customers for processing refining lots, do not include the value of precious metals. In addition, certain customers choose to purchase their own precious metals and furnish bullion to Handy & Harman for fabrication. When the metals are returned to the customer in fabricated form, the customer pays only a fabrication charge, and the precious metal value of this consignment business is not included in sales or cost of sales.

In the non-precious metals segment, a number of subsidiaries manufacture a variety of specialty metal products, using copper, steel, nickel, plastics and other raw materials. These products are sold, generally in a finished product state, to substantially the same industries as are the products of the precious metals segment.

(Thousands of Dollars)	1974	1975	1976	1977	**1978**
Sales and Service Revenues:					
Precious Metals	$330,849	$282,435	$273,171	$275,682	**$331,638**
Non-Precious Metals	60,159	56,009	74,615	106,048	**136,317**
	391,008	338,444	347,786	381,730	**467,955**
Profit contribution before unallocated expenses:					
Precious Metals	26,899*	26,978*	19,217	18,411	**22,200**
Non-Precious Metals	7,770	5,575	8,032	10,635	**13,796**
	34,669	32,553	27,249	29,046	**35,996**
General corporate expenses	(808)	(754)	(773)	(868)	**(820)**
Interest expense	(7,831)	(6,128)	(5,669)	(7,058)	**(9,063)**
Income before income taxes	$ 26,030*	$ 25,671*	$ 20,807	$ 21,120	**$ 26,113**

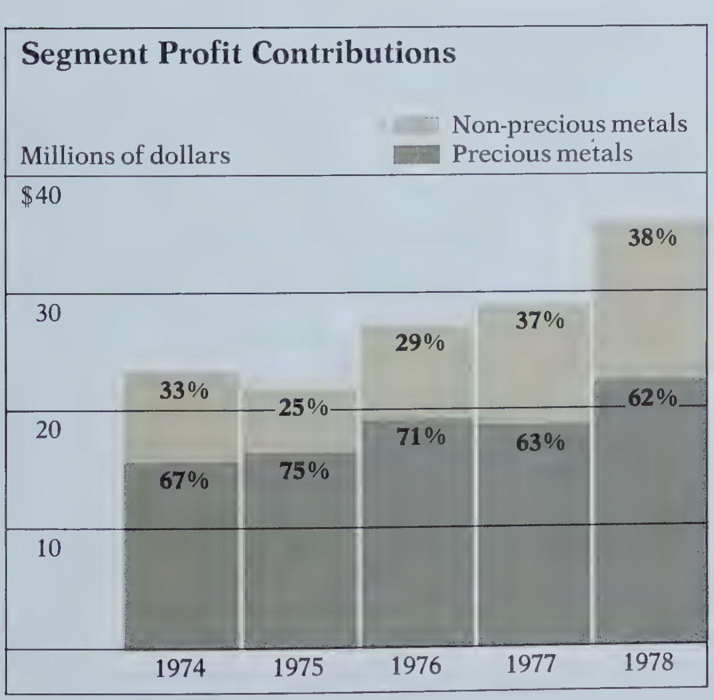
*Included in the profit contributions, as shown above, are profits before taxes of $11,170,000 in 1974 and $10,685,000 in 1975 attributable to reductions in inventory of precious metals valued under the LIFO method. Exclusion of such LIFO profits from the precious metals segment would significantly alter the comparison of the two segments. Therefore, your attention is directed to the charts on the right which (1) analyze the relative contributions of the two segments without regard to LIFO profits and (2) segregate the after tax effect of LIFO profits from net income.

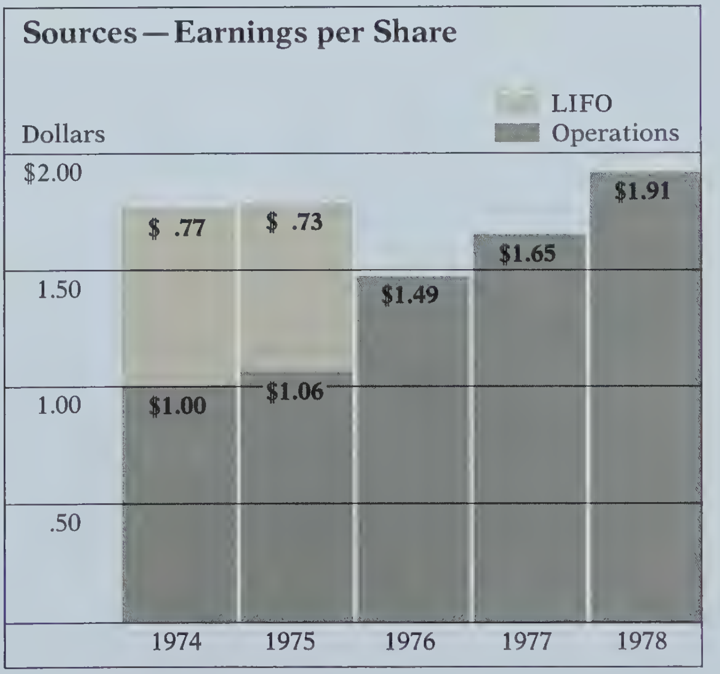
The following table segregates assets identifiable to the two reportable segments. Corporate assets include cash and investments.

(Thousands of Dollars)	Assets 1974	1975	1976	1977	**1978**
Precious Metals	$112,294	$100,903	$110,573	$107,854	**$137,416**
Non-Precious Metals	34,965	35,239	52,719	69,810	**96,105**
Corporate	9,927	10,389	10,523	9,495	**8,469**
	$157,186	$146,531	$173,815	$187,159	**$241,990**

The comparison of Handy & Harman's precious metals segment sales dollars from year to year is not meaningful due to two factors: (1) changing market values of the silver, gold and other precious metals which comprise a substantial portion of the sales price; and (2) the changing mix between market (i.e., sales which include precious metal cost) and consignment sales. The table below, therefore, shows all classes of similar precious metal products (measured by gross weight of shipments as a percentage of total segment shipments) which contributed 10% or more to total sales and revenues during either 1978 or 1977.

	Percent of Shipments 1974	1975	1976	1977	**1978**
Rolled Products	54%	52%	46%	46%	**46%**
Wire Products	36%	32%	34%	37%	**36%**
Grain Products	6%	11%	11%	7%	**5%**
Powder Products	2%	3%	7%	9%	**11%**





FIVE YEAR SUMMARY

	Dollars in Thousands Except per Share Figures				
	1978	1977	1976	1975	1974
Sales and service revenues	**$467,955**	$381,730	$347,786	$338,444	$391,008
Cost of sales and services	**405,333**	330,892	301,109	288,147	340,326
Interest expense	**9,063**	7,058	5,669	6,128	7,831
Income before income taxes	**26,113**	21,120	20,807	25,671	26,030
Provision for taxes on income	**13,192**	9,972	10,256	12,965	13,783
Net income	**12,921**	11,148	10,551	12,706*	12,247*
Dividends paid	**3,556**	2,879	2,487	2,958**	1,802
Per share of common stock after giving effect to 2-for-1 stock split:					
Net income	**1.91**	1.65	1.49	1.79*	1.77*
Dividends paid	**.52½**	.42½	.35	.41⅔**	.26
Property, plant and equipment (net)	**55,622**	47,317	37,396	31,669	26,551
Total assets	**241,990**	187,159	173,815	146,531	157,186
Average shares outstanding (nearest thousand)	**6,772**	6,773	7,076	7,086	6,930
Number of shareholders	**2,968**	2,922	2,913	2,976	2,559
Number of employees	**4,845**	4,151	3,085	2,658	2,750

*Reduction of precious metal inventories valued under the LIFO method resulted in increases in net income in 1975 and 1974 of approximately $5,200,000 and $5,362,000, respectively, equal to $.73 and $.77 per share of common stock. Additionally, 1974 net income was reduced by approximately $1,841,000, equal to $.27 per share, as a result of increasing silver inventories at a cost in excess of the LIFO carrying value.

**Includes special dividend of $947,000, equal to $.13⅓ per share.

STOCK TRADING AND DIVIDENDS

Handy & Harman Common Stock is traded on the New York Stock Exchange. The table at right sets forth, for the quarterly periods indicated, the reported high and low sales prices for the Common Stock on the New York Stock Exchange and the dividends paid on the Common Stock during such periods, after adjustment for the two-for-one stock split effected as of November 15, 1978.

	Common Stock Sales Prices High	Common Stock Sales Prices Low	Dividends Paid on Common Stock Per Share
1977			
January 1-March 31	11⅝	9¾	$.10
April 1-June 30	11½	10¼	.10
July 1-September 30	11⅞	10¼	.10
October 1-December 31	11⅞	10¾	.125
1978			
January 1-March 31	14¾	11¼	.125
April 1-June 30	16¾	13¼	.125
July 1-September 30	18½	14¾	.125
October 1-December 31	19⅛	14¾	.15

MANAGEMENT'S DISCUSSION AND ANALYSIS

Comparison of 1978 versus 1977

Precious metals segment sales increased $55,956,000 (20%) due primarily to increased average prices for silver (17%) and gold (31%). While this increase in prices of the principal raw materials of the segment caused sales dollars to increase, cost of sales increased by the same amount.

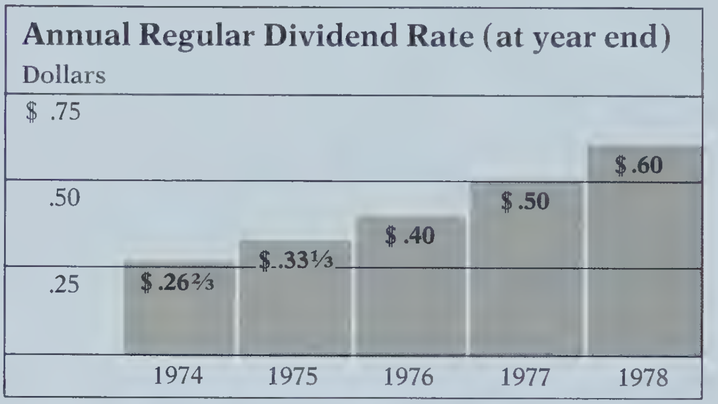
The segment's profit contribution (pre-tax income before deducting interest and corporate expenses) increased $3,789,000 (21%) over 1977, resulting from a number of factors. One of the principal reasons was the increase in refining service revenues. The higher market values of gold and silver acted as a stimulant to such business, since industrial scrap whose value had previously been marginal now became profitable to refine. Additionally, increases in the volume of shipments of fabricated products, as well as price increases to offset inflationary cost increases, contributed to profits.

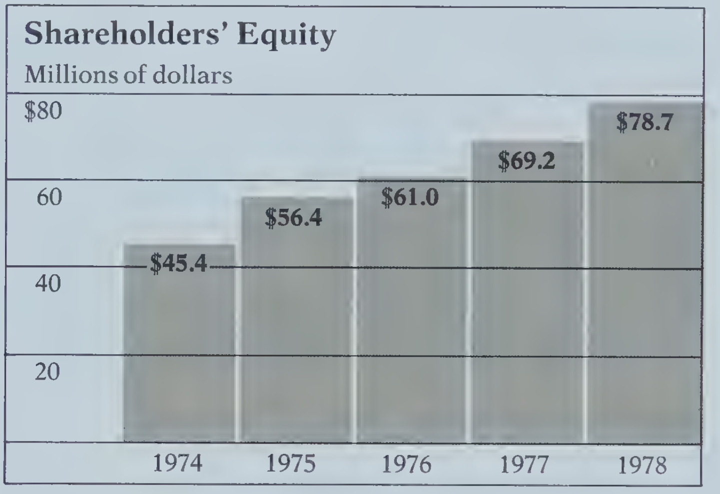
The consolidated provision for doubtful accounts increased by $816,000 to $945,000 in 1978. Substantially all of this increase is attributable to the precious metals segment, since higher market values of gold and silver coupled with higher interest rates resulted in increased exposure-to-risk of customers' accounts.

In the non-precious metals segment, sales increased by $30,269,000 (29%) and the profit contribution increased $3,161,000 (30%) resulting from: sales of products by subsidiary companies acquired during 1978 and 1977; generally higher unit sales volumes of most products (which reduce fixed charges as a percentage of sales); and inflationary price increases. Offsetting the increase in this segment was the negative effect of a strike in 1978 at the Company's powder metals subsidiary, Greenback Industries.

Maintenance and repairs, and taxes, other than income taxes (principally payroll taxes), increased 10% and 36% respectively, due to the addition of the non-precious metals subsidiaries and, in the case of payroll taxes, from statutory rate changes.

Interest expense increased by $2,005,000 (28%). This increase results from the higher average interest rate experienced for short-term borrowings during the year, and also from increased long-term borrowings at rates higher than the short-term borrowing rate. The latter reason reflects the Company's continuing policy of maintaining an appropriate balance between long-term and short-term obligations. General corporate expenses were $48,000 less than 1977.





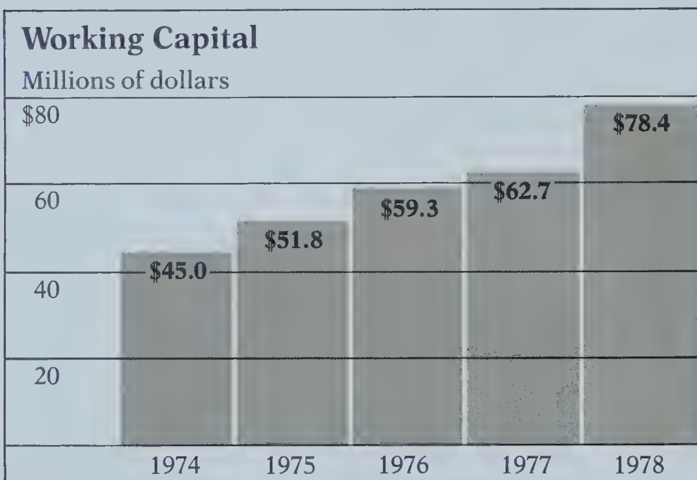
The effective income tax rate in 1978 was 50.5% as compared with 47.2% in 1977. The primary reason for the increase in 1978 was a reduced investment tax credit. Note 3 of the Notes to Consolidated Financial Statements further analyzes the difference between the effective rate and the U.S. Federal statutory rate.

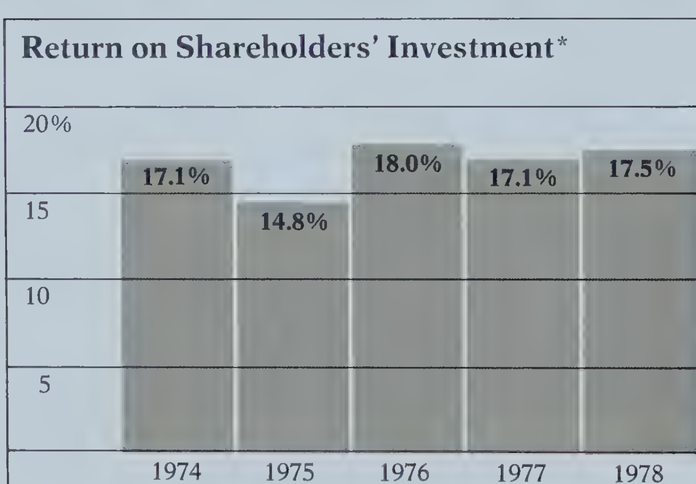
Fourth quarter pre-tax income is 54% greater than the corresponding period of 1977. The principal reason for this increase is the contribution in 1978 of the newly acquired subsidiaries. The fourth quarter

1978 income tax rate (55%) is greater than the full year's rate because the investment tax credit expressed as a percentage of pre-tax income was less than anticipated.

Comparison of 1977 versus 1976

Consolidated sales of products and service revenues increased 10% in 1977 over 1976. This increase is attributable substantially to the non-precious metals segment which increased $31,433,000 (42%) as a





*Percent of earnings before LIFO profits and extraordinary credit

result of: sales by subsidiary companies acquired during 1977 and 1976, higher unit sales volume of most major products, and generally increased prices. Precious metals segment sales were approximately the same in 1977 and 1976. A comparison of average gold and silver market values indicates that silver prices increased by 6% and gold prices by 18%. These increases in precious metals prices offset reduced unit sales volume during the period.

The combined profit contribution increased by $1,797,000 (7%). The non-precious metals segment contribution increased by $2,603,000 (32%) due primarily to: the increase in sales volume as explained above; generally increased volume for existing plants; and the resumption of profitable operations at a plant which was struck during 1976. The contribution of the precious metals segment decreased by $806,000 (4%) as a result of the decreased volume of sales of most precious metals products.

Maintenance and repairs increased by $980,000 (19%) generally reflecting the higher volume of business in the non-precious metals segment. Variable costs and expenses, other than the metal content of inventory, which are related to both cost of sales and selling, general and administrative expenses, after allowing for subsidiaries acquired in 1976 and 1977, increased due to inflationary factors but generally in relationship to the increase in sales volume.

Interest expense increased by $1,389,000 (25%) reflecting both increased average borrowings throughout the year and an increase in the effective interest rate relating to increased long-term liabilities. Corporate expenses increased by $95,000. The effective income tax rate of 47.2% is 2.1 percentage points lower than the effective rate in 1976 resulting in a reduction in income taxes of $284,000 (3%). See Note 3 for a further analysis of the income tax rates.

Income before income taxes in the fourth quarter of 1977 was $465,000 (9%) less than the comparable quarter of 1976, reflecting increased interest rates and the reduction in volume in the precious metals segment. The effective income tax rate in the fourth quarter was 42%; this lower rate reflects adjustment resulting both from increased investment tax credit as certain projects were completed earlier than expected, and the effect of items taxed at the capital gains rate.

CONSOLIDATED STATEMENT OF INCOME

Handy & Harman and Subsidiaries

	Year Ended December 31, 1978	1977
Sales and service revenues	**$467,955,000**	$381,730,000
Cost of sales and services	**405,333,000**	330,892,000
Gross profit	**62,622,000**	50,838,000
Selling, general, and administrative expenses	**26,757,000**	22,781,000
Provision for doubtful accounts	**945,000**	129,000
	27,702,000	22,910,000
	34,920,000	27,928,000
Other deductions (income):		
Interest expense (Note 2)	**9,063,000**	7,058,000
Other (net)	**(256,000)**	(250,000)
	8,807,000	6,808,000
	26,113,000	21,120,000
Provision for taxes on income (Note 3)	**13,192,000**	9,972,000
Net income	**$ 12,921,000**	$ 11,148,000
Net income per share of common stock	**$1.91**	$1.65

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

Handy & Harman and Subsidiaries

	December 31, 1978	December 31, 1977
Assets		
Current assets:		
Cash (Note 2)	**$ 9,254,000**	$ 16,066,000
Receivables*	**92,162,000**	52,449,000
Inventories*	**78,253,000**	65,049,000
Deferred income tax benefit	**1,618,000**	1,078,000
Prepaid expenses and deposits	**1,194,000**	1,213,000
Total current assets	**182,481,000**	135,855,000
Property, plant, and equipment*	**87,821,000**	75,261,000
Less accumulated depreciation and amortization	**32,199,000**	27,944,000
	55,622,000	47,317,000
Intangibles, net of amortization*	**2,381,000**	2,470,000
Deferred charges	**342,000**	252,000
Other assets	**1,164,000**	1,265,000
	$241,990,000	$187,159,000

Liabilities and Shareholders' Equity

	1978	1977
Current liabilities:		
Notes payable (Note 2)	**$ 67,792,000**	$ 46,815,000
Current maturities of long-term liabilities	**3,840,000**	2,796,000
Accounts payable	**16,277,000**	10,263,000
Accrued liabilities:		
Smelters' charges and other expenses	**11,623,000**	10,627,000
United States and foreign taxes on income (Note 3)	**2,660,000**	1,523,000
Other taxes	**1,852,000**	1,091,000
Total current liabilities	**104,044,000**	73,115,000
Long-term liabilities, less current maturities*	**56,743,000**	42,881,000
Total liabilities	**160,787,000**	115,996,000
Deferred income taxes	**2,486,000**	1,916,000
Commitments (Note 4)		
Shareholders' equity:		
Common stock—par value $1; 16,000,000 shares authorized; issued: 1978—7,291,716 shares; 1977—7,285,716 shares (Note 5)	**7,292,000**	7,286,000
Capital surplus	**6,372,000**	6,282,000
Retained earnings (Note 2)	**69,653,000**	60,367,000
	83,317,000	73,935,000
Deduct treasury stock: 1978—515,264 shares; 1977—524, 264 shares—at cost	**4,600,000**	4,688,000
Total shareholders' equity	**78,717,000**	69,247,000
	$241,990,000	$187,159,000

*See Note 7 for details.

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Handy & Harman and Subsidiaries

Years Ended December 31, 1977 and 1978

	Par Value $1 Common Stock	Capital Surplus	Retained Earnings	Treasury Stock Shares	Treasury Stock Cost	Total Shareholders' Equity
Balance, January 1, 1977	$3,650,000	$6,326,000	$55,821,000	266,562	($4,779,000)	$61,018,000
Adjustment for 2-for-1 stock split effected November 15, 1978	3,650,000		(3,650,000)	266,562		
Balance, January 1, 1977 as adjusted	7,300,000	6,326,000	52,171,000	533,124	(4,779,000)	61,018,000
Net income			11,148,000			11,148,000
Cash dividends on common stock—$.42½ per share			(2,879,000)			(2,879,000)
Common stock held in treasury reissued on exercise of stock options		45,000	(82,000)	(8,800)	90,000	53,000
Cancellation of shares contingently issued for business combination	(14,000)	(89,000)	9,000	(60)	1,000	(93,000)
Balance, December 31, 1977	7,286,000	6,282,000	60,367,000	524,264	(4,688,000)	69,247,000
Net income			12,921,000			12,921,000
Cash dividends on common stock—$.52½ per share			(3,556,000)			(3,556,000)
Exercise of stock options	6,000	90,000	(79,000)	(9,000)	88,000	105,000
Balance, December 31, 1978	$7,292,000	$6,372,000	$69,653,000	(515,264)	($4,600,000)	$78,717,000

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Handy & Harman and Subsidiaries

	Year Ended December 31, 1978	1977
Working capital, January 1	**$62,740,000**	$59,332,000
Sources:		
Operations:		
Net income	**12,921,000**	11,148,000
Items entering into determination of net income which did not use working capital:		
Depreciation and amortization	**5,018,000**	4,443,000
Non-current deferred income taxes	**570,000**	705,000
Other	**139,000**	66,000
Working capital provided from operations	**18,648,000**	16,362,000
Disposal of property, plant, and equipment	**108,000**	144,000
Additions to long-term liabilities	**17,661,000**	8,021,000
Common stock options exercised	**105,000**	53,000
Other	**53,000**	(19,000)
	36,575,000	24,561,000
Uses:		
Reduction of long-term liabilities	**3,892,000**	3,390,000
Cash dividends paid	**3,556,000**	2,879,000
Property, plant, and equipment:		
Expenditures	**7,742,000**	7,232,000
Acquired through business combinations	**5,423,000**	7,039,000
Intangibles acquired through business combinations	**155,000**	558,000
Additions to deferred charges	**110,000**	55,000
	20,878,000	21,153,000
Increase in working capital	**15,697,000**	3,408,000
Working capital, December 31	**$78,437,000**	$62,740,000
Increase (decrease) in components of working capital:		
Cash	**($ 6,812,000)**	$ 3,225,000
Receivables	**39,713,000**	(3,850,000)
Inventories	**13,204,000**	3,599,000
Deferred income tax benefit	**540,000**	(55,000)
Prepaid expenses and deposits	**(19,000)**	221,000
Increase in current assets	**46,626,000**	3,140,000
Notes payable and current maturities of long-term liabilities	**22,021,000**	(7,610,000)
Accounts payable	**6,014,000**	4,690,000
Accrued liabilities	**2,894,000**	2,652,000
Increase (decrease) in current liabilities	**30,929,000**	(268,000)
Increase in working capital	**$15,697,000**	$ 3,408,000

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Handy & Harman and Subsidiaries

a—Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The accounts of foreign subsidiaries are translated at appropriate rates of exchange. Translation losses are not material. All significant intercompany items have been eliminated.

Investments in 20%-50% owned companies are carried at equity in their net assets.

b—Stock split
All data in the financial statements have been retroactively adjusted to reflect the two-for-one stock split effected on November 15, 1978, as though it had occurred at the beginning of the periods presented.

c—Inventories
Substantially all precious metals inventories are valued at cost as computed under the last-in, first-out (LIFO) method, which is lower than market. Non-precious metals inventories are stated at the lower of cost (principally average) or market.

d—Property, plant and equipment, and depreciation
Property, plant and equipment are stated at cost. Depreciation and amortization are provided principally on the straight-line method for financial reporting purposes and on accelerated methods for tax purposes. Generally, buildings are depreciated over 50 years and machinery and equipment over 14 years.

e—Research and development
Research and development costs are charged to operations as incurred. Purchased computer systems and programming costs are generally capitalized and amortized over periods not to exceed five years.

f—Intangibles and amortization
Purchased patents are stated at cost, which is amortized over the respective remaining lives of the patents.

The excess of purchase price over net assets acquired in business combinations is being amortized on the straight-line method over periods ranging from 10 to 40 years.

g—Sales and service revenues
A high percentage of the sales price for the Company's precious metal products (see "The Company's Business," page 16) is the value of the precious metals contained. Changes in the unit sales price of such precious metals result in corresponding changes in sales and cost of sales. Additionally, sales of precious metals for future delivery are excluded from sales and cost of sales in the accompanying income statement.

Service revenues, which represent charges to customers for processing refining lots, are recognized in income when the lots are settled with the customer as to precious metal content. Additional costs and smelter charges relating to the settled lots are accrued at that time.

h—Retirement plans
The Company and substantially all of its subsidiaries have non-contributory retirement plans for the benefit of eligible employees. Pension costs are calculated by the Company's consulting actuary to include amortization of prior service cost, generally over a period of 30 years from the inception of the respective plan and from the date of plan amendments. The Company's policy is to fund pension costs accrued.

i—Taxes on income
The Company files a consolidated Federal income tax return with all its domestic wholly owned subsidiaries. The investment credit is recorded as a reduction of the provision for income taxes under the flow-through method.

Timing differences in reporting certain transactions for financial statement purposes (principally provisions for doubtful accounts and depreciation) that are recognized in the tax returns of other periods are appropriately accounted for as deferred taxes.

The Company's policy is to reinvest undistributed earnings of foreign subsidiaries. Therefore, as permitted by Opinion Number 23 of the Accounting Principles Board, there is no recognition of domestic income tax expense on such undistributed earnings in the accompanying financial statements. Undistributed earnings of 50% or less owned companies, carried on the equity method, are presently not material.

j—Income per share
Per share amounts are based on the weighted average number of shares outstanding during the years, adjusted retroactively, when applicable, for shares issued in a pooling-of-interests transaction or a stock split. Outstanding stock options are considered common stock equivalents using the treasury stock method and are included in the calculation when their effect would be dilutive; however they had no dilutive effect in 1978 and 1977.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—1978 AND 1977

Handy & Harman and Subsidiaries

1—Recent acquisitions

During 1978 the Company acquired by purchase Daniel Radiator Corporation for approximately $10,000,000 cash, including expenses. The results of operations of Daniel are included in the consolidated financial statements subsequent to the acquisition date November 1, 1978. The following unaudited pro forma summary combines the consolidated results of operations of the Company with those of Daniel as if Daniel had been acquired on January 1 of each of the years.

	1978	1977
Sales and service revenues	$489,582,000	$404,844,000
Net income	13,866,000	11,623,000
Net income per share of common stock	$2.05	$1.72

2—Cash, notes payable, interest, and restrictions

At December 31, 1978, the Company had: (i) regular lines of credit totaling $81,000,000 with 14 banks; (ii) special credit agreements totaling $95,000,000 with seven banks; and (iii) a $25,000,000 revolving credit and term loan agreement with two banks.

Short term bank borrowings under the regular lines of credit amounted to $45,500,000 at December 31, 1978 compared to $36,000,000 at December 31, 1977. Additionally, at December 31, 1978, the Company had $6,500,000 of commercial paper outstanding ($10,000,000 at December 31, 1977) and a $15,000,000 one year loan from a commercial bank. There were no other short term borrowings at either date.

Under the regular lines of credit, monies are advanced for periods generally of 90 days at the then prevailing prime rate of interest. In connection with such lines, the Company maintains average compensating balances equal to approximately 15% of the total line. The balances are not legally restricted as to withdrawal and serve as part of the Company's minimum operating cash balances. The average compensating balances related to the regular lines at December 31, 1978, totaled approximately $8,300,000 expressed in terms of book cash balances. This amount was approximately $3,700,000 less than the amounts reflected by the banks. The difference is attributable to float and uncollected funds.

The special credit agreements expire during October 1979. A fee of ½ of 1% per annum on the unused commitment is payable during the term of the agreements and loans under the agreements bear interest at a maximum of 110% of the prime lending rate at the time of borrowing.

The revolving credit portion of the revolving credit and term loan agreement expires on February 1, 1980, with the then outstanding amount convertible into four year term loans repayable in instalments to February 1, 1984. The loans will bear interest at a rate which approximates 118% of the prime rate as in effect from time to time. In addition, a fee of ½ of 1% per annum of the unused commitment is payable during the revolving credit period.

The Company's borrowing needs are primarily related to the market value of precious metals and the resulting changes in receivables. Interest on short-term borrowings used to finance the receivables resulting from sales of precious metals for future delivery approximates the income from these contracts and the amounts are netted for financial reporting purposes.

At December 31, 1978 and 1977, the average interest rate for outstanding short-term borrowings was 9.8% and 7.4%, respectively. During 1978, the average month-end short-term borrowing was $84,204,000, the weighted average interest rate was 8.7%, computed on the basis of the number of days the borrowings were outstanding; and the maximum month-end short-term borrowing was $109,032,000. The corresponding amounts for the year ended December 31, 1977 were: average month-end borrowing—$63,413,000; weighted average interest rate—6.5%; and maximum month-end borrowing—$75,600,000.

Under the most restrictive provisions of the Company's loan agreements, $7,600,000 of consolidated retained earnings are unrestricted at December 31, 1978 as to the declaration of cash dividends and the acquisition of capital stock of the Company. The agreements limit total liabilities and long-term liabilities to $264,808,000 and $60,000,000, respectively, and require the maintenance of minimum working capital of $59,674,000, all as determined by formula. Additionally, the agreements require the maintenance of minimum tangible net worth of $53,000,000. At December 31, 1978, the consolidated totals were: Total liabilities—$160,787,000; long-term liabilities—$56,743,000; working capital—$78,437,000; and tangible net worth—$75,277,000.

3—Taxes on income

The provision for taxes on income comprised the following (in thousands):

	1978		
	Currently Payable	Deferred	Total
State and local	$ 1,901	$ 96	$ 1,997
Foreign	1,041	(289)	752
Federal	9,890	553	10,443
	$12,832	$ 360	$13,192
Investment credit			$ 453

	1977		
	Currently Payable	Deferred	Total
State and local	$ 1,314	$ 78	$ 1,392
Foreign	912	(104)	808
Federal	6,986	786	7,772
	$ 9,212	$ 760	$ 9,972
Investment credit			$ 641

A reconciliation of the U.S. Federal statutory tax rate, expressed as a percentage of income before income taxes, to the actual tax expense is as follows:

	1978	1977
U.S. Federal statutory tax rate	48.0%	48.0%
State and local income taxes, net of Federal income tax benefit	4.0	3.4
Investment tax credit	(1.8)	(3.0)
Permanent tax deductions in excess of book charges in accounting for acquired subsidiaries	.2	(.8)
Benefit from income taxed at capital gains rate	—	(1.1)
Net effect of foreign tax rates	(.1)	.3
Other	.2	.4
Actual tax expense	50.5%	47.2%

4—Commitments

Commitments at December 31, 1978 for additional property, plant and equipment approximated $2,300,000.

Lease and rental commitments are not significant.

5—Stock options

At December 31, 1978, 161,324 shares of common stock held in the treasury were reserved for issuance under the Company's 1972 Stock Option Plan. Transactions under the Plan and the 1965 Plan, which expired, are summarized below:

	Shares Available for Option	Shares Under Option	
		Shares	Range of Price
Balance, January 1, 1977	216,000	64,800	$6.00-$8.33
Options expired	8,000	(8,000)	6.00
Options exercised	—	(8,800)	6.00-6.11
Balance, December 31, 1977	224,000	48,000	6.11-8.33
Options exercised	—	(15,000)	6.11-8.33
Options expired	15,000	(15,000)	6.11
Options granted	(107,000)	107,000	15.13
Balance, December 31, 1978	132,000	125,000	$8.33-$15.13

Of the shares under option, 18,000 were exercisable at December 31, 1978. Of the balance 42,800 will become exercisable during 1979, and 21,400 will become exercisable during each of 1980, 1981 and 1982.

6—Segment information

Information regarding the Company's two industry segments—manufacturing of precious metals products and refining services, and manufacturing of non-precious metals products—is contained on pages 16 and 17. The information for the years ended December 31, 1978 and 1977 is incorporated herein by reference. Additional information concerning these years is as follows:

	1978	1977
Depreciation and amortization expense:		
Non-precious metals	$ 3,450,000	$ 2,773,000
Precious metals	1,547,000	1,656,000
Corporate	21,000	14,000
	$ 5,018,000	$ 4,443,000
Property, plant and equipment additions:		
Non-precious metals:		
Expenditures	$ 4,486,000	$ 4,244,000
Acquired through business combinations	5,423,000	7,039,000
	9,909,000	11,283,000
Precious metals	3,256,000	2,988,000
	$13,165,000	$14,271,000

There are no significant inter-segment sales, no single customer to whom sales and revenues constituted 10% of the total consolidated sales and revenues, and operations outside of the United States and Canada are not significant.

7—Supplemental information

	1978	1977
a—Receivables:		
Trade accounts	$ 69,347,000	$ 52,758,000
Allowance for doubtful	2,210,000	1,713,000
	67,137,000	51,045,000
Sales of precious metals for future delivery	14,988,000	—
Advances to suppliers and customers	10,037,000	1,404,000
	$ 92,162,000	$ 52,449,000
b—Inventories:		
Precious metals:		
Fine and fabricated metals in various stages of completion	$ 41,698,000	$ 41,842,000
Non-precious metals:		
Base metals, factory supplies, and raw materials	18,997,000	12,101,000
Work in process	9,289,000	6,671,000
Finished goods	8,269,000	4,435,000
	$ 78,253,000	$ 65,049,000
Precious metals stated at LIFO cost	$ 41,589,000	$ 41,489,000
LIFO inventory—excess of year-end market value over cost	$151,892,000	$106,311,000
December 31 market value per ounce:		
Silver	$ 6.074	$ 4.780
Gold	$ 226.000	$ 164.950
Market value of precious metals held for customers and returnable in commercial bar or fabricated form	$ 31,966,000	$ 22,280,000
c—Property, plant, and equipment:		
Land	$ 3,039,000	$ 2,093,000
Buildings and improvements	23,573,000	20,360,000
Machinery and equipment	56,004,000	47,987,000
Furniture and fixtures	2,359,000	1,838,000
Automotive	337,000	304,000
Improvements to leased property	972,000	608,000
Construction in progress	1,537,000	2,071,000
	$ 87,821,000	$ 75,261,000
Depreciation and amortization charged to operations	$ 4,752,000	$ 4,096,000
d—Intangibles (net of amortization):		
Patents and others	$ 834,000	$ 1,005,000
Excess of purchase price over net assets acquired in business combinations	1,547,000	1,465,000
	$ 2,381,000	$ 2,470,000

	1978	1977
e—Long-term liabilities:		
7⅜% note, payable in annual instalments of $667,000 to 1988	$ 6,665,000	$ 7,332,000
9% note, payable in annual instalments of $667,000 to 1991	8,666,000	9,333,000
9⅛% note, payable in annual instalments of $667,000 from 1980 to 1994	10,000,000	10,000,000
9½% note, payable in annual instalments of $667,000 from 1982 to 1996	10,000,000	10,000,000
8½% note, payable in semi-annual instalments of $571,000 to 1984	6,286,000	7,428,000
7½%-10½% note, payable in semi-annual instalments of $1,000,000 to 1986	15,000,000	—
Capitalized lease obligations	335,000	574,000
Other liabilities	3,631,000	1,010,000
	60,583,000	45,677,000
Less instalments due within one year	3,840,000	2,796,000
	$ 56,743,000	$ 42,881,000
f—Pension information:		
Cost charged to operations	$ 2,540,000	$ 2,229,000
Unfunded prior service cost	$ 7,928,000	$ 7,698,000
g—Undistributed earnings of foreign subsidiaries	$ 4,516,000	$ 3,987,000

8—Selected quarterly data (unaudited)

Summarized financial data for interim periods of 1978 and 1977 (expressed in millions of dollars except per share data) are as follows:

	1978 Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Sales	$103.6	$115.9	$123.7	$124.7
Gross profit	13.5	15.5	14.9	18.7
Net income	2.9	3.6	3.1	3.3
Net income per share of common stock	$ .44	$ .53	$ .45	$ .49

	1977 Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Sales	$ 92.9	$ 91.3	$ 94.6	$102.9
Gross profit	12.5	13.2	11.8	13.3
Net income	2.8	3.1	2.4	2.8
Net income per share of common stock	$ .42	$ .45	$ .35	$ .42

9—Replacement cost data (unaudited)

A 1976 Securities and Exchange Commission ruling requires some companies to report certain information relating to replacement cost of inventories and productive capacity, and the impact of these costs upon depreciation and cost of sales.

The Company believes that the impact of inflation, except for depreciation, is essentially reflected in the statement of income. A substantial portion of the Company's inventories are valued under the LIFO method and, accordingly, cost of sales for materials consumed approximates current costs. With respect to inventories valued at methods other than LIFO, the Company has for the most part been able to adjust selling prices sufficiently to maintain historic profit margins.

The current cost to replace productive capacity (buildings and equipment) including fully depreciated assets, would be substantially higher than historic cost and, if replaced, would result in higher depreciation expense. However, the Company believes, based on past experience, that such replacement of assets would result in more efficient and therefore lower costs of operation.

The Company's Annual Report to the Securities and Exchange Commission on Form 10-K will contain more detailed information with respect to replacement cost of inventories and productive capacity and the effect on cost of sales and depreciation expense, if such assets were replaced at costs prevailing at December 31, 1978 and 1977. It should be noted, however, that the estimating procedures inherent in the compilation of this data are necesarily subjective and the replacement cost information is not indicative of the Company's plans for (or the future cost of) actual replacement of existing productive capacity.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

HURDMAN AND CRANSTOUN
140 Broadway, New York, N.Y. 10005

To the Directors and Shareholders of Handy & Harman:

We have examined the consolidated balance sheets of Handy & Harman and subsidiaries as of December 31, 1978 and 1977, and the related consolidated statements of income, shareholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements identified above present fairly the financial position of Handy & Harman and subsidiaries consolidated at December 31, 1978 and 1977 and the consolidated results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Hurdman and Cranstoun

Certified Public Accountants
March 6, 1979

DIRECTORS AND OFFICERS

Listed below are the members of the Board of Directors of the Company and its executive officers, together with their principal occupations or employment and the principal business of the organizations by which they are employed. In the case of each of the executive officers, his principal occupation is his employment with the Company.

Board of Directors

THEODORE W. ATKINSON
Executive Vice President of the Company

N. GEORGE BELURY†
Group Vice President,
Commercial Products, I.C. Industries, Inc.

PHILIP L. CARRET*
Chairman of the Pioneer Fund, Inc., a mutual fund; President of Carret and Company, Inc., investment counselors and broker dealers.

RICHARD N. DANIEL
Group Vice President of the Company

WILLIAM L. GREY*
Partner of law firm of Pennie & Edmonds

JOHN G. HALL†
Executive Vice President and Director,
Freeport Minerals Company

WILLIAM H. NEWMAN*
Samuel Bronfman Professor Emeritus,
Graduate School of Business,
Columbia University

GOUVERNEUR M. NICHOLS†
Director of Company Services,
Time, Inc.

M. WILBUR TOWNSEND*
Chairman of the Board and President of the Company

EZRA K. ZILKHA*
Board Chairman, Fidelity International Bank; President, Zilkha & Sons, Inc., investments.

Officers

M. W. TOWNSEND
Chairman of the Board and President

THEODORE W. ATKINSON
Executive Vice President

JAMES W. BLAIR, JR.
Group Vice President

DAVID C. CANNON
Group Vice President

DONALD A. CORRIGAN
Vice President—Research
& Development

RICHARD N. DANIEL
Group Vice President

PHILIP G. DEUCHLER
Vice President—Marketing

FRED J. LAMBERT
Vice President—Employee Relations

WILLIAM H. MARTINSON
Controller

RAYMOND L. McGEE
Vice President—Precious Metals
Manufacturing

STEPHEN B. MUDD
Treasurer

BRUCE R. TUTTLE, JR.
Secretary and Counsel

BARRY WAYNE
Vice President—Refining Operations

*Member of Executive Committee
†Member of Audit Committee

CORPORATE ORGANIZATION

Handy & Harman Executive Offices
850 Third Ave., New York, N.Y. 10022

Plants
Fairfield, Conn.
Attleboro, Mass.
El Monte (Los Angeles), Calif.
Mt. Vernon, N.Y.

Service Branches and Sales Offices
Attleboro, Mass.
Cleveland, Ohio
Dallas, Texas
Elk Grove Village (Chicago), Ill.
El Monte (Los Angeles), Calif.
New York, N.Y.
Southfield (Detroit), Mich.

Principal Subsidiaries and Divisions

American Clad Metals Division
Pawtucket, R.I.
Richard H. Almquist, President

Bigelow Components Corporation
Springfield, N.J.
Richard A. Fowler, President

Conn-Form Corporation
Waterbury, Conn.
Craig S. Martenson, President

Continental Industries, Inc.
Tulsa, Okla.
J. C. Cole, President

Customet, Inc.
Westwood, N.J.
David J. Harman, President

Daniel Radiator Corporation
Houston, Tex.
P. R. Daniel, President

Greenback Industries, Inc.
Greenback, Tenn.
Robert J. MacDonald, President

Handy & Harman
Metalsmiths Systems Division
Totowa, N.J., and Bensenville, Ill.
Edward P. Scott, President

Handy & Harman Tube Co., Inc.
and its Micro-Tube Fabricators Division
Norristown, Pa.
Robert M. Thompson, President

Jackson Industries, Inc.
Chicago, Ill.
P. R. Daniel, President

Lucas-Milhaupt, Inc.
Cudahy, Wisc.
Harlan H. Olson, President

Maryland Specialty Wire, Inc.
Cockeysville, Md.
Richard Nash, Jr., President

Merit Plastics, Inc.
East Canton, Ohio
Warren R. Gross, President

New Industrial Techniques, Inc.
Coral Springs, Fla.
Eugene R. Andreotti, President

Pennsylvania Wire Rope Corporation
Williamsport, Pa.,
and Martinsburg, W.Va.
James R. Kraus, President

Rathbone Corporation
Palmer, Mass.
Leonard S. Dorsett, President

U.S. Auto Radiator Manufacturing Corp.
Highland Park, Mich.
Richard Mooradian, President

In Canada
Handy & Harman of Canada, Ltd.
Toronto, Ont., and Montreal, Que.
William K. Honan, President

In England
Rigby-Maryland (Stainless) Ltd.
Liversedge, Yorkshire
Peter J. Rigby, Managing Director

In Japan
Japan Handy Harman, Ltd.
Koshigaya (Tokyo)
(Owned jointly with Mizuno Precious Metals, Ltd., and C. Itoh & Co., Ltd.)
Hiroshi Mizuno, President

CORPORATE INFORMATION

Annual Meeting
The Annual Meeting of the Shareholders of Handy & Harman will be held on May 8, 1979, at the Morgan Guaranty Trust Company of New York, 522 Fifth Avenue (44th Street), New York City at 11 a.m.

Corporate Services

GENERAL COUNSEL
Breed, Abbott & Morgan

AUDITORS
Hurdman and Cranstoun

TRANSFER AGENT & REGISTRAR
Morgan Guaranty Trust Company of N.Y.

STOCK LISTING
New York Stock Exchange
Ticker Symbol: HNH

Employment Policy
It is the policy of Handy & Harman and its subsidiaries and divisions to take affirmative action to insure that employment applicants and employees are treated without regard to race, sex, religion, color, national origin or age.

Handy & Harman
850 Third Avenue, New York, NY 10022 • Telephone: (212) 752-3400

Litho in U.S.A.